

FDIC State Profile

Fall 2005

Alaska

Employment conditions in Alaska may be weakening.

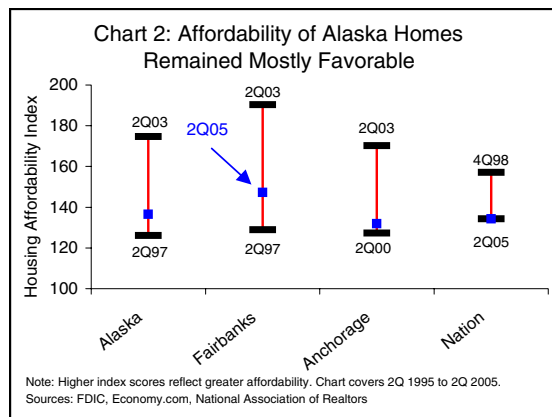
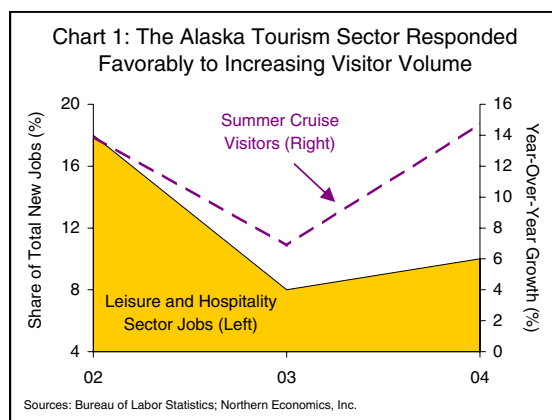
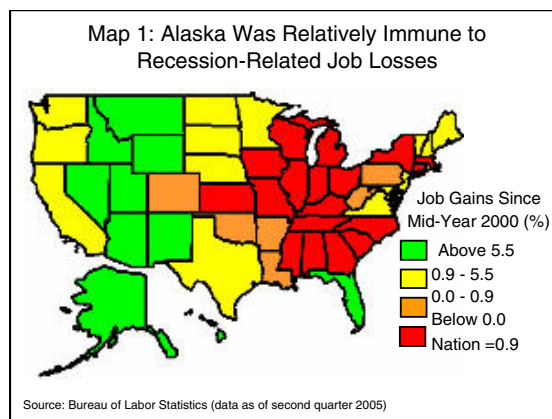
- Alaska was one of only five states in the nation that did not lose jobs on net during the 2001 recession, in large part because of robust job gains in its important government and construction sectors (see Map 1).
- However, job growth in Alaska slipped during the first half of 2005 as government and mining job gains stagnated despite stubbornly high oil prices. At the same time, tourism and education and health services continued to report solid growth.
- Continued moderation in total job growth is anticipated in 2006.¹ In particular, consumer and business service sector employment gains in **Anchorage** and **Fairbanks** may dwindle if proposed military cuts are implemented.
- Recent hurricanes may have implications for the Alaska economy. Post hurricane reconstruction in the Southeast may create labor and construction supply pressures. Although energy price increases may have some adverse effects on consumer demand and tourism, rising oil prices likely will benefit the important energy and government sectors.

The cruise industry boosted Alaska job growth.

- In 2004, the leisure and hospitality sector, benefited by the booming cruise industry, generated ten percent of new jobs in Alaska (see Chart 1).
- Industry analysts project continued growth in the cruise line business based on strong preliminary visitor counts for summer 2005 and an increase in the number of cruise ships destined for Alaska in the 2006 season.

House prices showed modest gains.

- Second quarter home prices rose 13.5 percent on an annual basis, slightly higher than the national average.² Second quarter housing affordability remained mostly favorable (see Chart 2).³



¹Forecast source is Economy.com and Alaska Department of Labor and Workforce Development.

²According to Office of Federal Housing Enterprise Oversight data.

³According to Economy.com and National Association of Realtors.

State Profile

- In first half 2005, residential mortgage activity in the state of Alaska was characterized by active levels of investor participation even among non-prime borrowers. For example, over 26 percent of Alt-A (low documentation) Alaska mortgages were to investors compared to more than 18 percent for the nation.⁴
- Construction and development (C&D) loans, which finance both commercial and residential building at insured financial institutions in Alaska, grew over 26 percent in the 12 months ending second quarter 2005. Alaska now ranks 16th in the nation with a median C&D to Tier 1 capital ratio of 49 percent versus a national median of 31 percent.

Bankruptcy filings are on the radar.

- Second quarter personal bankruptcy filings spiked 29 percent in Alaska year-over-year because of pending bankruptcy law changes. Although lower than the nation on a per capita basis, Alaska filings exceeded pre-recession levels (see Chart 3).
- Consumer loan delinquencies at Alaska institutions were at historical lows. However, should interest rates rise or energy prices remain elevated, institutions could experience an uptick in consumer loan delinquencies.

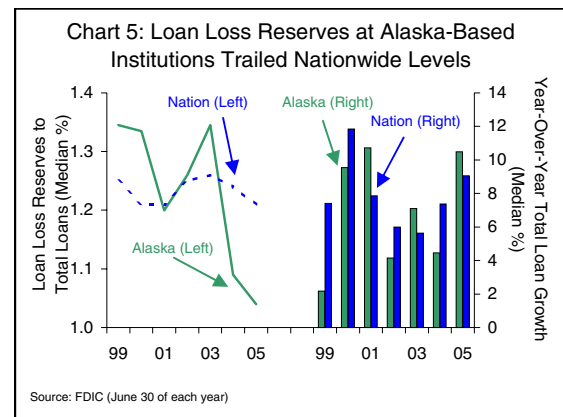
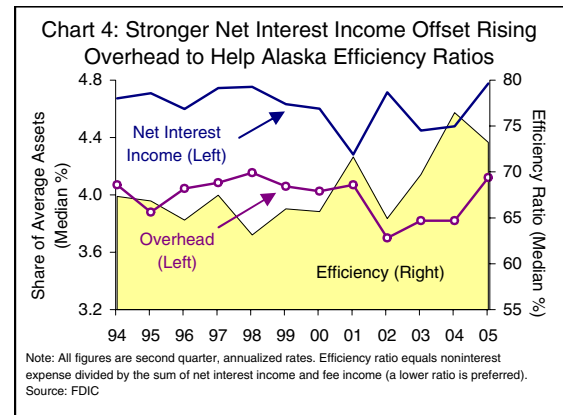
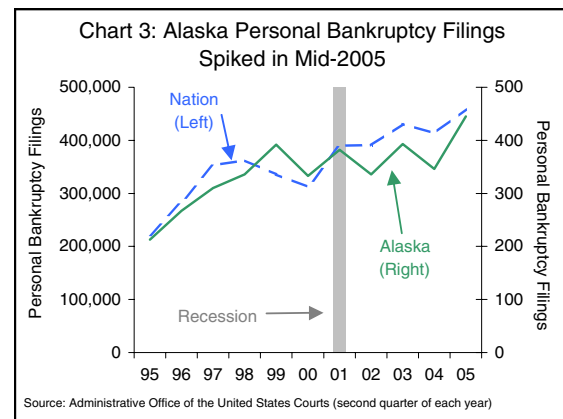
Profits rebounded despite rising overhead costs.

- Widening margins and higher fee income ratios benefited second quarter pre-tax earnings and efficiency ratios among Alaska-based institutions (see Chart 4).⁵ Profits increased despite rising overhead costs and lower loan and security sale gains.
- Margins benefited as institutions shifted their investments from securities to higher-yielding loans. Still, Alaska-based institutions invest a much smaller percentage of their assets in loans than the national median.
- Although improving, the median efficiency ratio (the share of net operating revenues absorbed by overhead expenses) ranked third worst in the nation, in part because of the high cost of doing business in Alaska.

Past-due ratios masked deteriorating trends.

- Although total past-due loan ratios improved year-over-year in second quarter 2005, more than half of institutions headquartered in Alaska reported an increase in severely delinquent loans.

- The higher-risk commercial and industrial and commercial real estate portfolios accounted for a disproportionately high share of total delinquencies.
- Additionally, loan loss reserves relative to total loans trended downward during the last eight quarters, significantly trailing the national level (see Chart 5). Accelerating loan growth and lower provision expenses contributed to the trend.



⁴According to LoanPerformance data.

⁵The efficiency ratio equals noninterest expense (overhead) divided by the sum of net interest income and noninterest income.

Alaska at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

| Employment Growth Rates | Q2-05 | Q1-05 | Q2-04 | 2004 | 2003 |
|--|--------------|--------------|--------------|-------------|-------------|
| Total Nonfarm (share of trailing four quarter employment in parentheses) | 1.5% | 1.6% | 1.3% | 1.5% | 1.5% |
| Manufacturing (4%) | 1.4% | -1.2% | 7.8% | 4.4% | 3.4% |
| Other (non-manufacturing) Goods-Producing (9%) | 3.2% | 4.0% | 2.2% | 2.3% | 1.1% |
| Private Service-Producing (60%) | 1.8% | 2.2% | 1.9% | 2.1% | 1.5% |
| Government (27%) | 0.2% | 0.2% | -1.0% | -0.4% | 1.2% |
| Unemployment Rate (% of labor force) | 6.5 | 7.0 | 7.4 | 7.5 | 7.7 |

| Other Indicators | Q2-05 | Q1-05 | Q2-04 | 2004 | 2003 |
|---|--------------|--------------|--------------|-------------|-------------|
| Personal Income | 6.8% | 6.6% | 5.8% | 4.4% | 3.4% |
| Single-Family Home Permits | -10.8% | -0.7% | 2.6% | 3.8% | 0.6% |
| Multifamily Building Permits | -29.8% | 157.3% | -20.1% | -24.1% | 39.1% |
| Existing Home Sales | -5.3% | 21.4% | 8.6% | 25.0% | 7.0% |
| Home Price Index | 13.5% | 12.1% | 9.7% | 10.1% | 5.0% |
| Bankruptcy Filings per 1000 people (quarterly annualized level) | 2.81 | 2.16 | 2.21 | 2.30 | 2.15 |

BANKING TRENDS

| General Information | Q2-05 | Q1-05 | Q2-04 | 2004 | 2003 |
|--------------------------------|--------------|--------------|--------------|-------------|-------------|
| Institutions (#) | 7 | 7 | 7 | 7 | 7 |
| Total Assets (in millions) | 4,016 | 3,886 | 3,823 | 3,893 | 3,863 |
| New Institutions (# < 3 years) | 0 | 0 | 0 | 0 | 0 |
| Subchapter S Institutions | 1 | 1 | 1 | 1 | 1 |

| Asset Quality | Q2-05 | Q1-05 | Q2-04 | 2004 | 2003 |
|--|--------------|--------------|--------------|-------------|-------------|
| Past-Due and Nonaccrual Loans / Total Loans (median %) | 1.09 | 1.01 | 1.81 | 1.69 | 2.20 |
| ALLL/Total Loans (median %) | 1.04 | 1.04 | 1.09 | 1.05 | 1.17 |
| ALLL/Noncurrent Loans (median multiple) | 1.73 | 1.80 | 4.75 | 1.70 | 1.69 |
| Net Loan Losses / Total Loans (median %) | 0.00 | 0.02 | 0.05 | 0.16 | 0.05 |

| Capital / Earnings | Q2-05 | Q1-05 | Q2-04 | 2004 | 2003 |
|--|--------------|--------------|--------------|-------------|-------------|
| Tier 1 Leverage (median %) | 9.36 | 9.48 | 8.89 | 9.29 | 8.92 |
| Return on Assets (median %) | 1.15 | 0.93 | 0.93 | 0.95 | 1.46 |
| Pretax Return on Assets (median %) | 1.63 | 1.27 | 1.31 | 1.33 | 1.59 |
| Net Interest Margin (median %) | 5.22 | 4.82 | 4.80 | 4.88 | 4.86 |
| Yield on Earning Assets (median %) | 6.19 | 5.74 | 5.32 | 5.42 | 5.89 |
| Cost of Funding Earning Assets (median %) | 1.13 | 0.95 | 0.67 | 0.69 | 0.84 |
| Provisions to Avg. Assets (median %) | 0.07 | 0.06 | 0.12 | 0.09 | 0.12 |
| Noninterest Income to Avg. Assets (median %) | 0.99 | 0.89 | 0.95 | 0.94 | 1.21 |
| Overhead to Avg. Assets (median %) | 4.12 | 4.00 | 3.82 | 3.78 | 3.86 |

| Liquidity / Sensitivity | Q2-05 | Q1-05 | Q2-04 | 2004 | 2003 |
|--|--------------|--------------|--------------|-------------|-------------|
| Loans to Assets (median %) | 53.6 | 53.3 | 49.9 | 50.8 | 47.7 |
| Noncore Funding to Assets (median %) | 16.5 | 16.8 | 16.0 | 14.2 | 17.7 |
| Long-term Assets to Assets (median %, call filers) | 17.7 | 20.8 | 21.6 | 16.8 | 11.5 |
| Brokered Deposits (number of institutions) | 2 | 2 | 2 | 2 | 2 |
| Brokered Deposits to Assets (median % for those above) | 2.4 | 2.4 | 1.7 | 1.7 | 1.7 |

| Loan Concentrations (median % of Tier 1 Capital) | Q2-05 | Q1-05 | Q2-04 | 2004 | 2003 |
|---|--------------|--------------|--------------|-------------|-------------|
| Commercial and Industrial | 127.8 | 125.7 | 135.6 | 115.8 | 122.8 |
| Commercial Real Estate | 292.6 | 295.1 | 281.3 | 299.7 | 293.8 |
| <i>Construction & Development</i> | 49.4 | 46.5 | 42.0 | 54.9 | 39.7 |
| <i>Multifamily Residential Real Estate</i> | 9.0 | 8.9 | 6.3 | 6.9 | 6.5 |
| <i>Nonresidential Real Estate</i> | 245.0 | 250.3 | 244.9 | 267.0 | 263.5 |
| Residential Real Estate | 98.9 | 96.8 | 80.6 | 84.7 | 80.8 |
| Consumer | 32.7 | 34.7 | 34.9 | 35.1 | 36.5 |
| Agriculture | 1.5 | 1.5 | 1.8 | 1.5 | 0.1 |

BANKING PROFILE

| Largest Deposit Markets | Institutions in Market | Deposits (\$ millions) | Asset Distribution | Institutions |
|--------------------------------|-------------------------------|-------------------------------|------------------------------|---------------------|
| Anchorage, AK | 5 | 3,038 | < \$250 million | 4 (57.1%) |
| Fairbanks, AK | 6 | 761 | \$250 million to \$1 billion | 2 (28.6%) |
| | | | \$1 billion to \$10 billion | 1 (14.3%) |
| | | | > \$10 billion | 0 (0%) |